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281529Z Sep 05

UNCLAS SECTION 01 OF 02 PARIS 006660

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USDOC FOR 4212/MAC/EUR/OEURA
DOE FOR ROBERT PRICE PI-32 AND KP LAU NE-80

E.O. 12958: N/A

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SUBJECT: FRANCE: ENERGY SECTOR UPDATE

Ref: Paris 5010

Paris 3654

[1](#)1. (U) This is the third in a series of occasional updates on the French energy sector. Feedback is welcome to help us make this product as useful as possible for our inter-agency USG audience.

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[1](#)2. (U) Labor unrest threatens production at French refineries: On September 27, Total said that its Gonfreville refinery, France's largest, continued to produce at reduced capacity as a strike over pay extended into its third day. Other reports said that striking workers had effectively closed the refinery. Based in France's northwest region of Normandy, Gonfreville is one of six operated by Total in France, but most notably is France's largest refinery, with a capacity of 343,000 barrels per day or about 15 percent of France's total refining capacity. In southern France, French shipping workers protesting the planned privatization of ferry company SNCM temporarily blockaded the Lavera-Fos port near Marseille that feeds refineries with a total 570,000 bpd of capacity, although as of September 28 oil firms said operations have not yet been affected.

[1](#)3. (SBU) GOF response to high fuel prices favors farmers: Fearing a repeat of 2000 protests by farmers and truckers, the French Government responded to the post-Katrina spike in fuel prices by providing fuel tax rebates for farmers. At an agriculture fair on September 13, Prime Minister Dominique de Villepin unveiled a 30 million euro aid package for farmers hit by the recent surge in fuel prices. Most of the aid comes in the form of fuel tax rebates of 20-50% for heating oil, natural gas, and heavy fuel oil. Taxes account for nearly 75% of the retail pump price of gasoline and diesel in France. De Villepin also announced that he would accelerate plans to promote the use of biofuels. The GOF will soon call for bids to build a 300 megawatt biofuel electricity plant and set a new goal for biofuels to satisfy 5.75 percent of total French energy consumption by 2008, two years ahead of the target set by the European Commission. The GOF also raised the tax credit for "clean vehicles" (most of which run on natural gas or electricity) from 1,500 to 2,000 euros.

[1](#)4. (SBU) Finance Minister promotes nuclear power at IMF meeting: French Finance Minister Thierry Breton urged the U.S. and other leading oil-consuming nations to invest in nuclear and other alternative energies, and criticized countries that subsidize oil consumption or don't tax it enough. "We must reduce oil subsidies where they exist, encourage through taxation a development model which is more respectful of fossil fuel resources," Breton said in a September 24 speech before the International Monetary Fund in Washington. "Developing alternative energies, nuclear energy in particular," is essential to prepare for "post-oil" times, he said. France has an important stake in the future of nuclear power, particularly since the GOF owns nuclear powerhouse Areva, the world's largest nuclear engineering and services company. (For more on Areva, see also 04 Paris 8615.)

[1](#)5. (SBU) Areva and Constellation Energy announce nuclear partnership: French nuclear services giant Areva

recently announced a strategic partnership with U.S. power company Constellation Energy to form a joint venture, called Unistar Nuclear, in an effort to gain a head start in the race to build the first nuclear power reactor in the U.S. in almost 30 years. Unistar Nuclear will promote the European Pressurized Reactor (marketed in the U.S. as the Evolutionary Pressurized Reactor), which was jointly developed by Areva and Siemens. As currently envisioned, Constellation Energy would operate the proposed fleet of new U.S. nuclear power plants and expects to hold the operating licenses. Constellation Energy submitted a license application for the EPR to the Nuclear Regulatory in May 2004 and Areva claims to have dedicated over 200 engineers and \$200 million to adapt the EPR technology to American requirements.

16. (SBU) EDF prepares for initial public offering: In anticipation of long-awaited partial privatization within the next several weeks, GOF auditors estimated the total value of Electricite de France (EDF) at 60 billion euros, which was at the low end of the anticipated range of 50 to 100 billion euros. GOF officials have also been meeting with banks to select which ones will manage what will likely be one of France's largest initial public offerings. According to our contacts in the Industry Ministry, EDF hopes to earn up to nine billion euros through an offering of new shares, which would dilute the GOF stake to between 80 and 85 percent. The additional capital raised could be used for new investments, such as plans to build a new nuclear reactor in Flamanville, Normandy, which is expected to cost three billion euros. However, the IPO will not occur before next week, when France's leading unions, which oppose any form of privatization fearing layoffs, have called for power cuts as part of a nationwide strike on October 4.

Stapleton